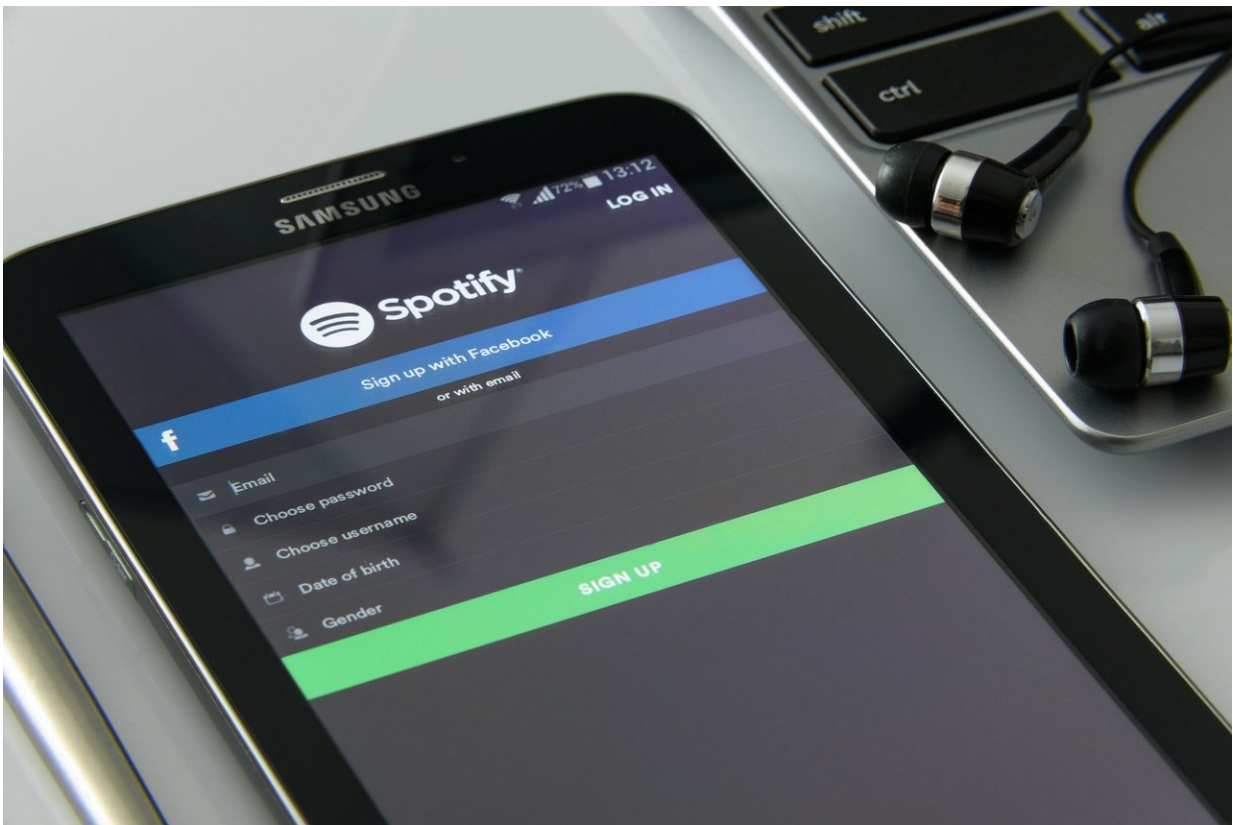


As Spotify gets into podcasts, industry readies for a new era

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Some are calling it the second golden age of audio.

Podcasting, once viewed as a niche industry that catered to public radio

fans, got a major boost this month when Swedish streaming giant Spotify agreed to pay around \$230 million for Gimlet Media, the New York producer of such audio dramas as "Homecoming" and the documentary series "Crimetown."

The deal—the largest to date—comes during a period of rapid growth in podcasting and could transform the industry in much the same way that Netflix changed television, analysts and executives said. Spotify's venture into the business is expected to bolster the value of [podcast](#) firms, generate higher licensing fees for producers, and potentially create a more consumer-friendly model built around subscriptions rather than advertising revenue.

"It sends a signal that podcasting's time has come in a big way," said Kelli Richards, chief executive of All Access Group, a digital music and entertainment consultancy. "You are going to see a frenzy of more podcasters entering the system."

The surge will probably prompt a wave of consolidations in a crowded market that already boasts more than 550,000 podcasts worldwide on Apple's Podcasts app, one of the most popular ways to discover programs. Newer podcasts will need to work harder to get discovered, said Oren Rosenbaum, head of emerging platforms at United Talent Agency. The agency represents more than 50 podcast creators or companies. "It is getting tougher and more challenging," Rosenbaum said.

BuzzFeed laid off members of its podcast team, while other companies, such as San Antonio-based IHeartMedia Inc. have expanded their footprint, purchasing Atlanta-based Stuff Media, one of the nation's largest podcast publishers, for \$55 million last year.

Podcasts are expected to take in \$514.5 million in ad dollars this year, up

28 percent from 2018, according to Interactive Advertising Bureau and PwC. That boost has helped fuel Southern California podcast firms such as Beverly Hills-based PodcastOne, which will take in about \$40 million in revenue this year, up 25 percent from 2018, said Executive Chairman Norm Pattiz.

"People listen to podcasts from start to finish," Pattiz said. "If they can't do it in one sitting, they hit the pause button. They can consume it whenever and wherever they want."

Last year, about 73 million Americans tuned in to podcasts each month, with many concentrated in metropolitan areas such as New York and Los Angeles, according to Edison Research and podcast analytics firm Podtrac.

Part of the growth has been fueled by celebrities such as Remi Cruz and Alisha Marie, who last year launched an L.A.-based podcast about their lives called "Pretty Basic," in which they discuss such topics as dating and fitness.

The podcast has helped them gain new fans beyond YouTube, generating more than 5 million downloads. It's produced by Ramble, a joint venture of New York-based podcast company Cadence13 and United Talent Agency.

"It feels very intimate," said the 24-year-old Cruz. Fans have tweeted saying they felt as if they "were in the room with us," she said.

Southern California hosts more than two dozen podcasting firms. Popular shows recorded locally include "The Dream," an investigative series on multilevel marketing companies; "Pod Save America," which features political commentary by aides of former President Obama; and "The Ron Burgundy Podcast" on iHeartRadio, in which comedian Will

Ferrell voices his character from the "Anchorman" movies. Hollywood screenwriters can learn about their craft on the weekly podcast Scriptnotes. There's even an agency for podcasters called Pod People, an L.A.-based firm that launched last year and has more than 330 clients.

"We're going to see a huge jump in 2019" in awareness and audience, said Pod People founder Rachael King. "It's a combination of technology getting better and bigger players getting into the game."

Podcasting took off in 2005, when Apple made more than 3,000 podcasts available for free on iTunes. Digital audio files became even more widespread seven years later when Apple launched its Podcasts app.

Hollywood took notice in 2014 after the success of "Serial," a popular podcast that investigates whether convicted murderer Adnan Syed really killed his high school ex-girlfriend. Venture capital firms poured money into start-ups, including Gimlet Media and West Hollywood-based Wondery, that created narrative programs similar to "Serial" that could be licensed for TV shows.

Increasingly, podcasts have been an inexpensive way to test stories for possible TV shows or movies.

"There is a lot more hunger for stuff that has been proven than for stuff that's just pitched," said producer Marc Smerling.

He and Zac Stuart-Pontier launched the documentary series "Crimetown" as a podcast through Gimlet. It cost \$500,000 for 18 episodes, a fraction of a TV budget, and had 16 million downloads in its first season. FX is now turning the podcast into a cable TV series.

"There is a large appetite from television producers for underlying

(intellectual property) that comes with a built-in audience," said Wondery CEO Hernan Lopez. "Books and [comic books](#) have been the main sources of IP to be optioned, but podcasts are becoming an increasingly popular form of IP."

Wondery has several nonfiction narrative programs, including popular true crime story "Dirty John" with the L.A. Times and medical investigation "Dr. Death." "Dirty John" became a hit show on Bravo; Universal Cable Productions is developing a TV series based on "Dr. Death."

Lopez declined to disclose financials but said Wondery's revenues nearly doubled last year. The company recently expanded its West Hollywood offices and expects to grow to 40 employees this year, up from 30, he said.

Despite the industry's growth, making money in podcasting has been a challenge, in part because of a heavy reliance on advertising. Often podcasts must have at least 10,000 downloads per episode to even qualify for ads—a tall order for small firms.

But Spotify—with its 96 million subscribers—could help matters by making a subscription model for podcasting more popular, as the company attempts to build a robust audio platform that goes beyond streaming music.

"The subscription model is a better consumer experience than having an advertising business," said Michael Montgomery, a lecturer at UCLA Anderson School of Management. "Netflix has shown that in spades."

The streamer, which charges \$9.99 a month for a premium account, plans to spend as much as \$500 million this year buying podcast companies (including about \$340 million to buy Gimlet Media and New

York podcast company Anchor FM Inc.) Already, Spotify has more than 185,000 podcast titles, including 14 exclusives in the fourth quarter.

"We have the opportunity to make [original content](#) the way Netflix does and to utilize the catalog of content we have in the platform to help bring people to the podcast space," said Dawn Ostroff, Spotify's chief content officer, in an interview.

Rival Pandora also is heavily investing in the space, building technology that will help users recommend podcasts based on their listening music patterns. The Oakland-based firm, which is owned by SiriusXM, uses algorithms to make recommendations on podcasts based on users' music listening patterns (Pandora also charges \$9.99 for its premium service).

"As we learn that about you, we can then serve you content that you care about," said Chris Phillips, Pandora's chief product officer.

Pandora has snapped up exclusive streaming rights for some podcasts, including Seasons 2 and 3 of "Serial."

Some analysts believe podcasting will continue to evolve beyond a Netflix-style subscription model. For example, in China, apps like Ximalaya FM bundle audio programs allowing users to pay a la carte based on the topic they are interested in, said Connie Chan, a general partner at Menlo Park venture firm Andreessen Horowitz.

The podcast industry has "a big future ahead of it, if it can learn to move beyond ads and monthly subscriptions, because that's the only way that the creators will have more incentive to produce deeper, better content," Chan said.

Some podcasters are trying to leverage their popularity by selling tickets for live events. L.A.-based Crooked Media's political commentary

program "Pod Save America" held more than 70 shows across the U.S. and Europe last year, with tens of thousands people attending its shows since 2017. "It's become a great source of revenue," said Tommy Vietor, one of the hosts. He declined to disclose figures.

For now, local entrepreneurs like Jason Smith, CEO of Burbank-based Starburns Audio, welcome Spotify's entry into the business. His 10-person company produces such shows as "Dumb People Town," about people doing asinine things.

"It opens it up," Smith said. "It shows that there is real value in these networks."

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